

Discovery Target Retirement Date Fund

31 December 2025

Market context

Risk assets capped a strong year with further gains in Q4, supported by resilient global growth and supportive policy shifts. Global equities extended their advance, with the MSCI All Country World Index up around 3% in Q4 (USD) and ending the year 22% higher. Markets looked through a brief November wobble on AI valuation concerns and sticky inflation, resuming their climb in December as the US Federal Reserve delivered another rate cut and Chair Jerome Powell adopted a more dovish tone.

By region, emerging markets outperformed advanced-economy equities, with a c.5% Q4 gain lifting the MSCI EM Index to a c.34% return for the year. US equities modestly lagged the global index in the final quarter and, over the full year, underperformed by the widest margin since the Global Financial Crisis. Even so, despite headwinds from trade policy uncertainty, elevated technology valuations and China's AI-driven rally boosting Asian markets, the S&P 500 still ended the year close to record highs. Other developed markets also posted positive returns in 2025, including the UK's FTSE All-Share (+6% in Q4), Germany's Dax (+3%) and Japan's Topix (+9%), with the latter reaching a record year-end level on AI optimism and a better-than-feared outcome to US trade talks. By sector, materials and healthcare led in Q4, while energy lagged due to concerns about oversupply in oil prices.

Global fixed income ended the year shaped by diverging regional policy paths, following heightened volatility in Q4. In the US, rate cuts supported the front end and drove a bull steepening, but uncertainty around growth, inflation and internal Fed debate kept markets finely balanced heading into 2026. Europe and Japan were more decisively hawkish: the ECB signalled an end to easing as inflation stabilised and fiscal pressures pushed yields higher, while Japan's exit from ultra-loose policy gathered pace amid persistent inflation and political uncertainty. The UK sat between these poles, with easing inflation and a December rate cut supporting a late-year rally, even as fiscal concerns and cautious guidance capped gains.

Gold rose another 12% in Q4 to end 2025 at about US\$4,319 per troy ounce, taking its annual gain to almost 65%, the strongest performance since the 1970s.

South African markets ended 2025 strongly, with the JSE All Share Index up 8.1% in Q4 and 42.4% for the year. Gains were steady through the quarter, led by resource-linked sectors, particularly gold and platinum miners, as precious metal prices rose.

Local currency bonds also performed well. The 10-year government yield fell from 10.3% to 8.2% over the year, supported by benign inflation, strong domestic and foreign demand, and a sovereign rating upgrade, with Standard & Poor's raising South Africa to BB with a positive outlook.

Economic data surprised on the upside, with GDP growth of 2.1% year-on-year in December, above expectations, driven by household consumption and exports. The rand ended the year at R16.56/USD, among the strongest emerging market performers, supported by higher precious metals prices and improved external balances.



Performance

Over the quarter and the month, the portfolio delivered a positive absolute return.

Key contributors:

- SA-listed property: standout performance for the quarter, supported by falling yields and solid company updates.
- South African government bonds: strong rally provided both direct returns and a tailwind to rate-sensitive domestic equities.
- 'SA Inc.' exposures: SA banks and insurers which benefitted from the bond tailwind supporting the broadening in market performance and supportive company updates.
- Precious metals: Gold ETF rose over the quarter as well as our holdings in gold and PGM equities.
- Global holdings (in dollars): positive underlying contributions from banks, healthcare and utilities, with Google and select semiconductors (ex-Nvidia) also adding.

Key detractors:

- Offshore equities in rand terms: despite positive underlying performance in dollars, rand strength left offshore equities negative in rands
- Naspers and Prosus: pulled back meaningfully as Tencent lagged, the holding-company discount widened, buyback expectations cooled, and concerns rose around potential AI disruption to "rump" assets (classifieds and food delivery).
- SA retailers (notably The Foschini Group): weak sales/trading dynamics and tough sector fundamentals offset the benefit of lower yields; the apparel space remained pressured despite signs of consumer resilience elsewhere.
- Global cyclicals and software: profit-taking weighed on industrials; while Microsoft and broader software lagged as the market differentiated between AI infrastructure "winners" and perceived AI "losers".

The portfolio added to SA duration early in the quarter and increased exposure to banks and insurers on weakness, reflecting improving domestic fundamentals and the supportive rate backdrop. Precious metal exposure was actively managed, with top-ups to gold and PGMs made during periods of weakness, and profits taken in Tiger Brands after a strong run to help fund opportunities.

Offshore, global financials were topped up following post-results pullbacks, utilities were trimmed after strong performance, and Cheniere Energy was exited due to increase competitive pressure to come. Smaller software holdings were reduced to zero, with proceeds redirected toward higher-conviction financial and healthcare ideas. The starter position in Brazilian local bonds, our first global bond addition since mid-2024, was maintained at around 1%–1.5% of the portfolio, with scope to add on more attractive entry points.

Outlook and strategy

Reflecting on 2025 provides an important backdrop for our outlook. Following the initial tariff announcements, markets moved quickly to downgrade growth expectations and reprice inflation risks higher. In practice, the economic impact proved to be more modest than initially feared. Growth surprised positively, inflation outcomes improved, and the scope for interest rate cuts increased. The result was a broadly Goldilocks environment into year-end, which supported risk assets and reinforced a 'buy-the-dip mentality'.

Looking ahead, we believe growth is likely to remain better than the market expects in 2026, with further scope for broadening beyond narrow leadership. Policy support underpins this view. In the US, fiscal measures are expected to support both investment and consumption, while the lagged effects of earlier monetary easing are beginning to feed through. Early signs of improving credit growth add to this more constructive outlook.



In Europe, the trajectory will depend on the effective transmission of fiscal support, which we continue to monitor closely. China is likely to remain a two-speed economy, with export-related activity holding up better than domestic consumption and property. Policy support there is expected to remain reactive rather than proactive but provides a backstop should external demand weaken materially.

Risks remain. A sustained fiscal impulse could see inflation pressures re-emerge later in 2026, potentially challenging expectations for further rate cuts. Geopolitical developments are also likely to remain a source of volatility, while the evolution of the artificial intelligence cycle warrants close attention as markets distinguish between infrastructure investment and genuine productivity gains.

That said, sentiment and positioning are not euphoric, and valuations, while fuller, are not signalling excess. Against this backdrop, we remain constructive on risk assets, though returns are likely to be driven by rotation and selectivity rather than broad market beta. Uncertainty and unexpected policy moves are likely to remain in play, but our Compelling Forces framework keeps us focused on fundamentals, valuations and price behaviour, allowing us to remain nimble without being reactive.